CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

September 16, 1997

S.1093
Extension of Nondiscriminatory Treatment (Most-Favored-Nation Treatment) to the Products of the Lao People's Democratic Republic

As ordered reported by the Senate Committee on Finance on September 16, 1997

SUMMARY

S. 1093 would authorize the extension of nondiscriminatory treatment (most-favored-nation treatment) to the products of the Lao People's Democratic Republic. CBO estimates that enacting this bill would reduce governmental receipts by about $14 million over the 1998-2002 period, net of income and payroll tax offsets. Because enacting S. 1093 would affect receipts, pay-as-you-go procedures would apply to the bill. CBO assumes an effective date of January 1, 1998, for this bill.

S. 1093 contains no new private-sector or intergovernmental mandates as defined in the Unfunded Mandates Reform Act of 1995 (UMRA), and would not impose any costs on state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 1093 is shown in the following table.

ESTIMATED BUDGETARY IMPACT OF S. 1093, EXTENSION OF NONDISCRIMINATORY TREATMENT (MOST-FAVORED-NATION TREATMENT) TO THE PRODUCTS OF THE LAO PEOPLE'S DEMOCRATIC REPUBLIC

	By Fiscal Year, in Millions of Dollars					
	1997	1998	1999	2000	2001	2002
REVENUES						
Proposed Changes	0	-2	-3	-3	-3	-3

BASIS OF ESTIMATE

Revenues

Under current law, general note 3(b) of the Harmonized Tariff Schedule of the United States (HTSUS) excludes the products from Laos from receiving nondiscriminatory treatment. The proposed legislation would amend general note 3(b) of the HTSUS by deleting "Laos." Removing Laos from the list would allow the United States Trade Representative (USTR) to negotiate a trade agreement obligating reciprocal MFN treatment between Laos and the United States.

Granting MFN status would lower tariff rates on imports from Laos. CBO estimates that lowering tariff rates would reduce customs duty revenues below the level projected under current import levels and tariff rates. However, we expect that imports would rise in response to the lower domestic price resulting from the lower tariffs. The negative effect on revenues from the lower rates would be partially offset by the positive effect on revenues from the greater volume of imports from Laos. CBO estimates that granting MFN status to the products of Laos would reduce government receipts by about $2 million beginning on January 1, 1998, and $3 million in the years thereafter.

This estimate is based on 1996 Census data on imports from Laos. The increase in imports of goods from Laos resulting from the reduced prices of the imported products in the U.S.--reflecting the lower MFN tariff rates--has been calculated using estimates of the substitution between U.S. products and imports of the same goods. Also, the calculation assumes that the economy of Laos will function in the next year in a manner similar to that of the recent past. Obviously, political and economic changes could affect its ability to produce and export goods, its need to import goods from the U.S. and other countries, and the exchange rate between its currency and that of the U.S. However, we believe that the assumption of relatively constant economic performance is appropriate.

PAY-AS-YOU-GO CONSIDERATIONS

Section 252 of the Balanced Budget and Emergency Deficit Control Act of 1985 sets up pay-as-you-go procedures for legislation affecting direct spending or receipts through 1998. CBO estimates that S. 343 would affect receipts. Therefore, pay-as-you-go procedures would apply to the bill. The pay-as-you-go impact is summarized below.

PAY-AS-YOU-GO CONSIDERATIONS

	By Fiscal Year, in Millions of Dollars	
	1997	1998
Changes in Outlays	Not Applicable	
Changes in Receipts	0	-2

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

The bill contains no new private-sector or intergovernmental mandates as defined in UMRA, and would not impose any costs on state, tribal, or local governments.

ESTIMATE PREPARED BY:

Alyssa Trzeszkowski

ESTIMATE APPROVED BY:

Rosemary Marcuss
Assistant Director for Tax Analysis